

ANNUAL STATEMENT

For the Year Ending December 31, 2003

OF THE CONDITION AND AFFAIRS OF THE

Preferred Health Partnership of Tennessee, Inc.

NAIC Group Code	1253	1253	NAIC Company Code	95749	Employer's ID Number	62-1546662
	(Current Period)	(Prior Period)				
Organized under the Laws of	Tennessee		State of Domicile or Port of Entry	Tennessee		
Country of Domicile	United States of America					
Licensed as business type:	Life, Accident & Health[]		Property/Casualty[]		Hospital, Medical & Dental Service or Indemnity[]	
	Dental Service Corporation[]		Vision Service Corporation[]		Health Maintenance Organization[X]	
	Other[]		Is HMO Federally Qualified? Yes[X] No[]			
Date Incorporated or Organized	01/01/1994			Date Commenced Business	01/01/1994	
Statutory Home Office	1420 Centerpoint Blvd.			Knoxville , TN 37932		
	(Street and Number)			(City, or Town, State and Zip Code)		
Main Administrative Office	1420 Centerpoint Blvd.					
	(Street and Number)					
	Knoxville, TN 37932			(865)670-7282		
	(City or Town, State and Zip Code)			(Area Code) (Telephone Number)		
Mail Address	1420 Centerpoint Blvd.			Knoxville, TN 37932		
	(Street and Number or P.O. Box)			(City, or Town, State and Zip Code)		
Primary Location of Books and Records	1420 Centerpoint Blvd.					
	(Street and Number)					
	Knoxville, TN 37932			(865)670-7282		
	(City, or Town, State and Zip Code)			(Area Code) (Telephone Number)		
Internet Website Address						
Statutory Statement Contact	Melissa R Anderson			(865)670-7282		
	(Name)			(Area Code)(Telephone Number)(Extension)		
	manders1@covhlth.com			(865)470-7461		
	(E-Mail Address)			(Fax Number)		
Policyowner Relations Contact	1420 Centerpoint Blvd.					
	(Street and Number)					
	Knoxville, TN 37932			(865)470-7470		
	(City, or Town, State and Zip Code)			(Area Code) (Telephone Number)(Extension)		

OFFICERS

President	Lance K. Hunsinger
Chief Financial Officer	Lance K. Hunsinger
Secretary	Jeffery S. Collake

VICE PRESIDENTS

DIRECTORS OR TRUSTEES

Kenneth Truman Creed
Michael McKay Dudley
Randolph Murphree Lowry MD
Cletus Joseph McMahon Jr. MD
David A. Nowiski
Anthony L. Spezia

Thomas Rowe Bell
Daniel J. David MD
Marvin H. Eichorn
Kenneth Frederick Luckman MD
Michael Earl Mitchell MD
Francis H. Olmstead Jr.

State of Tennessee
County of Knox ss

The officers of this reporting entity, being duly sworn, each depose and say that they are the described officers of the said reporting entity, and that on the reporting period stated above, all of the herein described assets were the absolute property of the said reporting entity, free and clear from any liens or claims thereon, except as herein stated, and that this statement, together with related exhibits, schedules and explanations therein contained, annexed or referred to, is a full and true statement of all the assets and liabilities and of the condition and affairs of the said reporting entity as of the reporting period stated above, and of its income and deductions therefrom for the period ended, and have been completed in accordance with the NAIC Annual Statement Instructions and Accounting Practices and Procedures manual except to the extent that: (1) state law may differ; or, (2) that state rules or regulations require differences in reporting not related to accounting practices and procedures, according to the best of their information, knowledge and belief, respectively.

(Signature)	(Signature)	(Signature)
Lance K. Hunsinger	Lance K. Hunsinger	Jeffery S. Collake
(Printed Name)	(Printed Name)	(Printed Name)
President	Chief Financial Officer	Secretary
	a. Is this an original filing?	Yes[] No[X]
	b. If no,	1
Subscribed and sworn to before me this	1. State the amendment number	11/19/2004
day of , 2004	2. Date filed	16
	3. Number of pages attached	

(Notary Public Signature)

ASSETS

		Current Year			Prior Year
		1	2	3	4
		Assets	Nonadmitted Assets	Net Admitted Assets (Cols.1-2)	Net Admitted Assets
1.	Bonds (Schedule D)	47,651,741		47,651,741	70,496,839
2.	Stocks (Schedule D)				
2.1	Preferred stocks				
2.2	Common Stocks				
3.	Mortgage loans on real estate (Schedule B):				
3.1	First liens				
3.2	Other than first liens				
4.	Real estate (Schedule A):				
4.1	Properties occupied by the company (less \$..... encumbrances)				
4.2	Properties held for the production of income (less \$..... encumbrances)				
4.3	Properties held for sale (less \$..... encumbrances)				
5.	Cash (\$.....5,759,406 Schedule E Part 1), cash equivalents (\$..... Schedule E Part 2) and short-term investments (\$..... Schedule DA)	5,759,406		5,759,406	3,776,349
6.	Contract loans (including \$..... premium notes)				
7.	Other invested assets (Schedule BA)				
8.	Receivable for securities				
9.	Aggregate write-ins for invested assets				
10.	Subtotals, cash and invested assets (Lines 1 to 9)	53,411,147		53,411,147	74,273,188
11.	Investment income due and accrued	888,798		888,798	1,157,946
12.	Premiums and considerations				
12.1	Uncollected premiums and agents' balances in the course of collection				
12.2	Deferred premiums, agents' balances and installments booked but deferred and not yet due (Including \$..... earned but unbilled premiums)				
12.3	Accrued retrospective premiums				
13.	Reinsurance:				
13.1	Amounts recoverable from reinsurers				
13.2	Funds held by or deposited with reinsured companies				
13.3	Other amounts receivable under reinsurance contracts				
14.	Amounts receivable relating to uninsured plans				
15.1	Current federal and foreign income tax recoverable and interest thereon ...				
15.2	Net deferred tax asset				
16.	Guaranty funds receivable or on deposit				
17.	Electronic data processing equipment and software				
18.	Furniture and equipment, including health care delivery assets (\$.....)				
19.	Net adjustment in assets and liabilities due to foreign exchange rates				
20.	Receivables from parent, subsidiaries and affiliates	4,764,188	36,464	4,727,724	
21.	Health care (\$.....) and other amounts receivable				
22.	Other assets nonadmitted				
23.	Aggregate write-ins for other than invested assets				2,370,412
24.	Total assets excluding Separate Accounts, Segregated Accounts and Protected Cell Accounts (Lines 10 to 23)	59,064,133	36,464	59,027,669	77,801,546
25.	From Separate Accounts, Segregated Accounts and Protected Cell Accounts				
26.	Total (Lines 24 and 25)	59,064,133	36,464	59,027,669	77,801,546
DETAILS OF WRITE-INS					
0901	.....			
0902	.....			
0903	.....			
0998.	Summary of remaining write-ins for Line 9 from overflow page				
0999.	TOTALS (Lines 0901 through 0903 plus 0998) (Line 9 above)				
2301.	A/R Risk Share				2,370,412
2302.	0				
2303	.....			
2398.	Summary of remaining write-ins for Line 23 from overflow page				
2399.	TOTALS (Lines 2301 through 2303 plus 2398) (Line 23 above)				2,370,412

LIABILITIES, CAPITAL AND SURPLUS

		Current Year			Prior Year
		1 Covered	2 Uncovered	3 Total	4 Total
1.	Claims unpaid (less \$..... reinsurance ceded)	1,421,510		1,421,510	3,116,777
2.	Accrued medical incentive pool and bonus amounts				
3.	Unpaid claims adjustment expenses	11,290		11,290	
4.	Aggregate health policy reserves	10,826,641		10,826,641	10,826,641
5.	Aggregate life policy reserves				
6.	Property/casualty unearned premium reserves				
7.	Aggregate health claim reserves				
8.	Premiums received in advance				
9.	General expenses due or accrued	11,498,675		11,498,675	13,746,682
10.1	Current federal and foreign income tax payable and interest thereon (including \$..... on realized capital gains (losses))				
10.2	Net deferred tax liability				
11.	Ceded reinsurance premiums payable				
12.	Amounts withheld or retained for the account of others				
13.	Remittance and items not allocated				
14.	Borrowed money (including \$..... current) and interest thereon \$..... (including \$..... current)				
15.	Amounts due to parent, subsidiaries and affiliates				20,617,000
16.	Payable for securities				
17.	Funds held under reinsurance treaties with (\$..... authorized reinsurers and \$..... unauthorized reinsurers)				
18.	Reinsurance in unauthorized companies				
19.	Net adjustments in assets and liabilities due to foreign exchange rates				
20.	Liability for amounts held under uninsured accident and health plans				
21.	Aggregate write-ins for other liabilities (including \$..... current)	14,082,990		14,082,990	14,082,990
22.	TOTAL Liabilities (Lines 1 to 21)	37,841,106		37,841,106	62,390,090
23.	Common capital stock	X X X	X X X	1,000	1,000
24.	Preferred capital stock	X X X	X X X		
25.	Gross paid in and contributed surplus	X X X	X X X	61,379,848	61,379,848
26.	Surplus notes	X X X	X X X		
27.	Aggregate write-ins for other than special surplus funds	X X X	X X X		
28.	Unassigned funds (surplus)	X X X	X X X	(40,194,285)	(43,451,208)
29.	Less treasury stock, at cost:	X X X	X X X		
29.1	..... shares common (value included in Line 23 \$.....)	X X X	X X X		
29.2	..... shares preferred (value included in Line 24 \$.....)	X X X	X X X		
30.	TOTAL capital and surplus (Lines 23 to 28 minus Line 29)	X X X	X X X	21,186,563	17,929,640
31.	TOTAL Liabilities, capital and surplus (Lines 22 and 30)	X X X	X X X	59,027,669	80,319,730
DETAILS OF WRITE-INS					
2101.	Accrued Run-Out Costs	14,082,990		14,082,990	14,082,990
2102.	Grier Decree Accrual				
2103.	Reserve for Transplants				
2198.	Summary of remaining write-ins for Line 21 from overflow page				
2199.	TOTALS (Lines 2101 through 2103 plus 2198) (Line 21 above)	14,082,990		14,082,990	14,082,990
2701	.....	X X X	X X X		
2702	.....	X X X	X X X		
2703	.....	X X X	X X X		
2798.	Summary of remaining write-ins for Line 27 from overflow page	X X X	X X X		
2799.	TOTALS (Lines 2701 through 2703 plus 2798) (Line 27 above)	X X X	X X X		

STATEMENT OF REVENUE AND EXPENSES

		Current Year		Prior Year
		1 Uncovered	2 Total	3 Total
1.	Member Months	X X X	1,576,120	1,411,276
2.	Net premium income (including \$..... non-health premium income)	X X X	195,632	109,964,306
3.	Change in unearned premium reserves and reserve for rate credits	X X X		
4.	Fee-for-service (net of \$..... medical expenses)	X X X		
5.	Risk revenue	X X X		
6.	Aggregate write-ins for other health care related revenues	X X X	1,249,239	13,508
7.	Aggregate write-ins for other non-health revenues	X X X		
8.	TOTAL revenues (Lines 2 to 7)	X X X	1,444,871	109,977,814
Hospital and Medical:				
9.	Hospital/medical benefits			51,534,383
10.	Other professional services		(48,912)	13,314,724
11.	Outside referrals			
12.	Emergency room and out-of-area			4,721,849
13.	Prescription drugs		(1,287,199)	19,195,524
14.	Aggregate write-ins for other hospital and medical		1,885,287	(4,143,708)
15.	Incentive pool, withhold adjustments and bonus amounts			
16.	Subtotal (Lines 9 to 15)		549,176	84,622,772
Less:				
17.	Net reinsurance recoveries			
18.	TOTAL hospital and medical (Lines 16 minus 17)		549,176	84,622,772
19.	Non-health claims			
20.	Claims adjustment expenses			5,273,180
21.	General administrative expenses			25,094,419
22.	Increase in reserves for life and accident and health contracts (including \$..... increase in reserves for life only)			
23.	TOTAL underwriting deductions (Lines 18 through 22)		549,176	114,990,371
24.	Net underwriting gain or (loss) (Lines 8 minus 23)	X X X	895,695	(5,012,557)
25.	Net investment income earned		3,003,257	3,749,260
26.	Net realized capital gains or (losses)		611,584	910,387
27.	Net investment gains or (losses) (Lines 25 plus 26)		3,614,841	4,659,647
28.	Net gain or (loss) from agents' or premium balances charged off [(amount recovered \$.....) (amount charged off \$.....)]			
29.	Aggregate write-ins for other income or expenses			
30.	Net income or (loss) before federal income taxes (Lines 24 plus 27 plus 28 plus 29)	X X X	4,510,536	(352,910)
31.	Federal and foreign income taxes incurred	X X X	1,295,965	
32.	Net income (loss) (Lines 30 minus 31)	X X X	3,214,571	(352,910)
DETAILS OF WRITE-INS				
0601.	Other Revenue	X X X	135	13,508
0602.	State Admin Revenue	X X X	1,249,104	
0603	.....	X X X		
0698.	Summary of remaining write-ins for Line 6 from overflow page	X X X		
0699.	TOTALS (Lines 0601 through 0603 plus 0698) (Line 6 above)	X X X	1,249,239	13,508
0701	.....	X X X		
0702	.....	X X X		
0703	.....	X X X		
0798.	Summary of remaining write-ins for Line 7 from overflow page	X X X		
0799.	TOTALS (Line 0701 through 0703 plus 0798) (Line 7 above)	X X X		
1401.	Recoveries		(704,659)	(754,116)
1402.	Risk Share		2,589,946	(3,389,592)
1403	.....		
1498.	Summary of remaining write-ins for Line 14 from overflow page			
1499.	TOTALS (Lines 1401 through 1403 plus 1498) (Line 14 above)		1,885,287	(4,143,708)
2901	.....		
2902	.....		
2903	.....		
2998.	Summary of remaining write-ins for Line 29 from overflow page			
2999.	TOTALS (Line 2901 through 2903 plus 2998) (Line 29 above)			

STATEMENT OF REVENUE AND EXPENSES (Continued)

		1	2
		Current Year	Prior Year
CAPITAL & SURPLUS ACCOUNT			
33.	Capital and surplus prior reporting year	17,929,640	18,282,548
GAINS AND LOSSES TO CAPITAL & SURPLUS			
34.	Net income or (loss) from Line 32	3,214,571	(352,910)
35.	Change in valuation basis of aggregate policy and claim reserves		
36.	Net unrealized capital gains and losses		
37.	Change in net unrealized foreign exchange capital gain or (loss)		
38.	Change in net deferred income tax		
39.	Change in nonadmitted assets	42,352	
40.	Change in unauthorized reinsurance		
41.	Change in treasury stock		
42.	Change in surplus notes		
43.	Cumulative effect of changes in accounting principles		
44.	Capital Changes:		
44.1	Paid in		
44.2	Transferred from surplus (Stock Dividend)		
44.3	Transferred to surplus		
45.	Surplus adjustments:		
45.1	Paid in		
45.2	Transferred to capital (Stock Dividend)		
45.3	Transferred from capital		
46.	Dividends to stockholders		
47.	Aggregate write-ins for gains or (losses) in surplus		
48.	Net change in capital and surplus (Lines 34 to 47)	3,256,923	(352,910)
49.	Capital and surplus end of reporting year (Line 33 plus 48)	21,186,563	17,929,638
DETAILS OF WRITE-INS			
4701.	Miscellaneous		
4702	.....	
4703	.....	
4798.	Summary of remaining write-ins for Line 47 from overflow page		
4799.	TOTALS (Lines 4701 through 4703 plus 4798) (Line 47 above)		

EXHIBIT 1 - ANALYSIS OF NONADMITTED ASSETS AND RELATED ITEMS

		1	2	3
		End of Current Year	End of Prior Year	Changes for Year (Increase) or Decrease
1.	Summary of items Page 2, Lines 12 to 20, Column 2	36,464	78,816	42,352
2.	Other Nonadmitted Assets:			
2.1	Bills receivable			
2.2	Leasehold improvements			
2.3	Cash advanced to or in the hands of officers and agents			
2.4	Loans on personal security, endorsed or not			
2.5	Commuted commissions			
3.	Total (Lines 2.1 to 2.5)			
4.	Aggregate write-ins for other assets			
5.	TOTAL (Line 1 plus Line 3 and Line 4)	36,464	78,816	42,352
DETAILS OF WRITE-INS				
0401	.....		
0402	.....		
0403	.....		
0498.	Summary of remaining write-ins for Line 4 from overflow page			
0499.	TOTALS (Lines 0401 through 0403 plus 0498) (Line 4 above)			

EXHIBIT 6 - AMOUNTS DUE FROM PARENT, SUBSIDIARIES AND AFFILIATES

1 Name of Affiliate	2 1 - 30 Days	3 31 - 60 Days	4 61 - 90 Days	5 Over 90 Days	6 Nonadmitted	Admitted	
						7 Current	8 Non-Current
Individually listed receivables							
Preferred Health Partnership Companies, Inc. - Corp Rec	4,727,724					4,727,724	
0							
Preferred Health Partnership, Inc. - I/C FIT Rec				36,464	36,464		
0199999 Total - Individually listed receivables	4,727,724			36,464	36,464	4,727,724	
0299999 Receivables not individually listed							
0399999 Total gross amounts receivable	4,727,724			36,464	36,464	4,727,724	

EXHIBIT 7 - AMOUNTS DUE TO PARENT, SUBSIDIARIES AND AFFILIATES

1 Affiliate	2 Description	3 Amount	4 Current	5 Non-Current
Individually listed payables				
0	0 .....	.....	.....	.....
0199999 Total - Individually listed payables .....	..... X X X .....	.....	.....	.....
0299999 Payables not individually listed .....	..... X X X .....	.....	.....	.....
0399999 Total gross payables .....	..... X X X .....	.....	.....	.....

Notes to Financial Statement

1. Summary of Significant Accounting Policies

A. Accounting Policies

The financial statements of Preferred Health Partnership of Tennessee, Inc. are presented on the basis of accounting practices prescribed or permitted by the NAIC *Accounting Practices and Procedures* manual and the State of Tennessee Department of Commerce and Insurance.

B. Use of Estimates in the Preparation of the Financial Statements

The preparation of financial statements in conformity with the Statutory Accounting Principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities. It also requires disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

C. Accounting Policy

The plan does not receive premiums from the State; the plan does receive a monthly capitation check to pay for the claims and administrative expenses of the company. This capitation revenue is recognized as income in the period it is received. Expenses incurred in connection with acquiring new insurance business are charged to operations as incurred.

In addition, the company uses the following accounting policies:

- (1) Short-term investments are stated at amortized cost.
- (2) Bonds are stated at amortized cost using the straight-line method.
- (3) Common Stock is stated at par value.
- (4) Not applicable
- (5) Not applicable
- (6) Not applicable
- (7) Not applicable
- (8) Not applicable
- (9) Not applicable
- (10) Anticipated investment income is not included in premium deficiency calculations.
- (11) Liabilities for losses and loss/claim adjustment expenses include an amount determined based on past experience for losses incurred but not reported. Such liabilities are necessarily based on assumptions and estimates and while management believes the amount is adequate, the ultimate liability may be in excess of or less than the amount provided. The methods of making such estimates and for establishing the resulting liability are reviewed on a monthly basis and any adjustments are reflected in the period determined.

2. Accounting Changes and Corrections of Errors

- A. No errors or changes in accounting principles have occurred.
- B. The initial implementation of Codification did not change the company's financial statement basis.

3. Business Combinations and Goodwill

Not applicable

4. Discontinued Operations

Not applicable

5. Investments

Not applicable

6. Joint Ventures, Partnerships, and Limited Liability Companies

Not applicable

7. Investment Income

All investment income due and accrued was admitted.

8. Derivative Instruments

Not applicable

9. Income Taxes

- A. (1) The total of all deferred tax assets (DTA) for 2003 is \$14,607,445.
- (2) The total of all deferred tax liabilities (DTL) for 2003 is \$61,935.

Notes to Financial Statement

- (3)

The total DTA’s non-admitted in accordance with SSAP No. 10, Income Taxes for 2003 is \$14,545,510.
- (4)

The total DTA’s admitted for 2003 is zero.
- (5)

The net decrease in non-admitted DTA’s for 2003 is \$3,644,247.
- B.

Deferred tax liabilities for 2003 are not recognized for investment discount accretion in the amount of \$61,935. There were no temporary differences due to investments in foreign subsidiaries or corporations.
- C.

The current provision for income tax expense is \$1,295,966. The \$3,644,247 decrease in DTA’s is primarily due to a decrease in the operating loss carry forwards. The \$11,442 increase in DTL’s is due to the increase in investment income accretion. There are no adjustments to the DTA’s and DTL’s due to changes in the tax laws, rates, or status of Preferred Health Partnership of Tennessee.
- D.

The significant book to tax adjustments were as follows:

	Amount	Tax Effect
Income Before Taxes	\$4,510,536	\$1,533,582
Book over Tax Reserves	(698,871)	(237,616)
Taxable Income	3,811,665	1,295,966

- E.

There are no operating loss or tax credits to carry forward.
- F.

The Plan’s federal income tax return is consolidated with the following entities:

PHP Companies, Inc.; Preferred Health Partnership, Inc.; Cariten Health Plan, Inc.; and Cariten Insurance Company.

Tax payments and the recoupment (in the event of future losses) of taxes paid pursuant to the tax allocation agreement are computed on a separate company basis as determined in accordance with the tax allocation agreement.

10. Information Concerning Parent, Subsidiaries, and Affiliates

- A.

The Plan is a wholly owned subsidiary of PHP Companies, Inc., a holding company domiciled in the State of Tennessee. PHP Companies, Inc. is a wholly owned subsidiary of Covenant Health, a non-profit organization domiciled in the State of Tennessee. The holding company group consists of the following companies: Preferred Health Partnership of Tennessee, Inc.; Preferred Health Partnership, Inc.; Cariten Insurance Company; and Cariten Health Plan, Inc.
- B.

The Plan periodically transfers cash to the parent, PHP Companies, Inc.; to reimburse for cost allocations and Plan expenses recorded on the Plan’s behalf by the parent. The following amounts were transferred to the parent during 2003: (1) \$1,000,000 on 01/03/03 (2) \$1,000,000 01/16/03 (3) \$1,000,000 on 02/07/03 (4) \$1,000,000 on 02/27/03 (5) \$1,000,000 on 03/13/03 (6) \$1,000,000 on 03/27/03 (7) \$1,000,000 on 04/25/03 (8) \$1,000,000 on 05/09/03 (9) \$1,000,000 on 06/10/03 (10) \$1,000,000 on 06/18/03 (11) \$1,000,000 on 07/01/03 (12) \$1,000,000 on 07/07/03 (13) \$1,000,000 on 07/30/03 (14) \$1,000,000 on 08/07/03 (15) \$1,000,000 on 08/28/03 (16) \$1,000,000 on 09/10/03 (17) \$1,000,000 on 09/19/03 (18) \$1,000,000 on 10/09/03 (19) \$1,000,000 on 10/23/03 (20) \$500,000 on 10/31/03 (21) \$1,000,000 on 11/06/03 (22) \$1,000,000 on 11/14/03 (23) \$500,000 on 11/20/03 (24) \$1,000,000 on 12/03/03 and (25) \$1,000,000 on 12/09/03
- C.

The Plan Transferred \$24,000,000 to PHP Companies. Cost allocations received from the parent company totaled \$16,852,838. Plan expenses paid by the parent company on behalf of the plan totaled \$13,427,486 and income tax allocations received from the parent company totaled \$1,295,966.
- D.

As of December 31, 2003, the Plan has a receivable from the parent of \$4,727,724.
- E.

Not applicable
- F.

The parent company of the Plan accumulates operating costs and allocates these expenses monthly to the operating entities listed above. Allocations are based proportionately on the membership counts of the companies listed above with government program memberships doubled, due to higher administration needs.

G-J. Not applicable.

11.

Debt
- .

Not applicable

12.

Retirement Plans, Deferred Compensation, Postemployment Benefits and Compensated Absences and Other Postretirement Benefit Plans
- Not applicable

13. Capital and Surplus, Shareholders' Dividend Restrictions and Quasi-Reorganizations

- (1)

The Plan has 1,000 shares of \$1 par common stock authorized and outstanding. All stock is owned by the parent company, PHP Companies, Inc,
- (2)

Not applicable
- (3)

No dividends are paid.

Notes to Financial Statement

- (4)

Not applicable
- (5)

No restrictions are placed on surplus.
- (6)

Not applicable
- (7)

No stock is held by company
- (8)

Not applicable
- (9)

Surplus was reduced \$36,464 due to nonadmitted asset values.
- (10)

Not applicable
- (11)

Not applicable
- (12)

Not applicable
14.

Contingencies
- A. - C

Not Applicable
- D.

The Plan has committed no reserves to cover any contingent liabilities. There have been no lawsuits against the company that have arisen in the course of the company’s business. Contingent liabilities arising from litigation, income taxes, and other matters are not considered material in relation to the financial position of the plan.
15.

Leases
- .

Not applicable
16.

Information about Financial Instruments with Off-Balance Sheet Risk and Financial Instruments with Concentrations of Credit Risk.
- .

Not applicable
17.

Sale, Transfer and Servicing of Financial Assets and Extinguishment of Liabilities
- .

Not applicable
18.

Gain or Loss to the Reporting Entity from Uninsured A&H Plans and the Uninsured Portion of Partially Insured Plans
- .

Not applicable
19.

Direct Premium Written/Produced by Managing General Agents/Third Party Administrators
- .

Not applicable
20.

Other Items
- .

Not applicable
21.

Events Subsequent
- .

Not applicable
22.

Reinsurance
- .

Not applicable
23.

Retrospectively Rated Contracts and Contracts Subject to Redetermination
- .

Not applicable
24.

Change in Incurred Claims and Claims Adjustment Expenses
- .

The reserve for incurred claims is calculated based on a percentage of completion methodology. This methodology is based on actuarial projections of trends in service.
25.

Intercompany Pooling Arrangements
- .

Not applicable
26.

Structured Settlements
- .

Not applicable
27.

Health Care Receivables
- .

Not applicable
28.

Participating Policies

Notes to Financial Statement

Not applicable

29. Premium Deficiency Reserves

As of December 31, 2003, the Company had liabilities of \$10,826,641 related to premium deficiency reserves. The Company did not consider anticipated investment income when calculating it’s premium deficiency reserves.

30. Anticipated Salvage and Subrogation

Not applicable

NAIC Company Code 95749
NAIC Group Code 1253



Reporting Entity Name Preferred Health Partnership of Tennessee, Inc.
Domiciled in Tennessee (State)
Mailing Address: 1420 Centerpoint Blvd., Knoxville, TN 37932
Annual Statement Contact: Melissa R Anderson (865)670-7282 manders1@covhlth.com
(Name) Telephone No. E-mail Address

In the Matter of the Annual Statement
(Annual/Quarterly)

Filing Required for the Period Ending on the
31st day of December, 2003
Mailing Date: 11/19/2004

**AFFIDAVIT OF FILING
AND FINANCIAL
STATEMENT ATTESTATION**

The officers of the above identified reporting entity, being duly sworn, each depose and say that on the mailing date above, a true and correct statement for the reporting period stated above and that the corresponding true and correct electronic file reflecting the statement for the above named reporting entity, has been sent to the National Association of Insurance Commissioners, according to their instructions. The statement and the corresponding electronic file are an exact and complete duplicate of the statement filed with the reporting entity’s domestic state, except as to schedules, exhibits and information required to be submitted only to the reporting entity’s domestic state.

Additionally, the officers of the above identified reporting entity, being duly sworn, each depose and say that they are the described officers of the said reporting entity, and that for the reporting period stated above, all of the described assets in the above referenced statement were the absolute property of the said reporting entity, free and clear from any liens or claims thereon, except as therein stated, and that the statement, together with related exhibits, schedules and explanations therein contained, annexed or referred to is a full and true statement of all the assets and liabilities and of the condition and affairs of the said reporting entity as of the reporting period stated above, and of its income and deductions therefrom for the period ended on that date, and have been completed in accordance with the NAIC Annual Statement Instructions and Accounting Practices and Procedures manual, except to the extent that (1) state law may differ; or (2) that state rules or regulations require differences in reporting not related to accounting practices and procedures, according to the best of their information, knowledge and belief, respectively.

(Signature)
Lance K. Hunsinger
(Printed Name)
Cheif Financial Officer

(Signature)
Lance K. Hunsinger
(Printed Name)
President

(Signature)
Jeffrey S. Collake
(Printed Name)
Secretary

(Signature)
(Printed Name)
Melissa R. Anderson

Subscribed and sworn to before me this
day of , 2004

(Notary Signature)
My Commission Expires:

Report #2A: TENNCARE OPERATIONS STATEMENT OF REVENUES AND EXPENSES

	Current Year		Previous Year
	Current Period	Year to Date Total	Total
Member Months	0	186	1,411,276
REVENUES:			
1. TennCare Capitation	0	195,632	109,964,306
2. Investment	770,003	3,614,841	4,659,647
3. Other Revenue	0	135	13,508
State Admin Revenue	1,249,104	1,249,104	0
4. TOTAL REVENUES (Lines 1 to 3)	2,019,107	5,059,712	114,637,461
EXPENSES:			
Medical and Hospital Services:			
5. Capitated Physician Services	(17,895)	(17,895)	1,606,239
6. Fee-For-Service Physician Services	0	0	9,525,814
7. Inpatient Hospital Services	(33,088)	(31,017)	53,508,572
8. Outpatient Services	0	0	3,310,194
9. Emergency Room Services	0	0	4,721,849
10. Mental Health Services	0	0	31,939
11. Dental Services (Capitated & FFS)	(2,786)	0	2,824,862
12. Vision Services (Capitated , FFS & Opthamology)	0	0	397,033
13. Pharmacy Services (Capitated & FFS)	(25,923)	(1,287,199)	19,195,524
14. Home Health Services	0	0	214,000
15. Chiropractic Services	0	0	0
16. Radiology Services	0	0	84,151
17. Laboratory Services	0	0	8,427,366
18. Durable Medical Equipment Services	0	0	3,268,563
19. Transportation Services (Capitated)	0	0	1,812,929
20. Outside Referrals	0	0	0
21. Medical Incentive Pool and Withhold Adjustments	0	0	0
22. Occupancy, Depreciation, and Amortization	0	0	0
23. Other Medical and Hospital Services (Provide Detail)			
Surgery - Orthopedic - FFS Office	0	0	54
MCO Delegated Services	0	0	28,013
Allergy & Immunology FFS Office & Other	0	0	4,174,703
Counselors/Therapists	0	0	0
Otolaryngology - FFS Office	0	0	562,890
Anesthesiology - FFS Hosp & Other	0	0	1,642,476
Gastroenterology	0	0	15,795
Preventive Medicine	0	0	1,614,304
Ped Emergency Medicine - FFS Hospital	0	0	0
IBNR	0	0	(28,200,790)
Risk Share	2,166,236	2,589,946	(3,389,592)
24. Subtotal (Lines 5 to 23)	2,086,544	1,253,835	85,376,888
25. Reinsurance Expenses Net of Recoveries	0	0	0
LESS:	0		
26. Copayments	0	0	0
27. Subrogation	0	0	0
27a Recoveries	144,526	704,659	754,116
28. Coordination of Benefits	0	0	0
29. Subtotal (Lines 26 to 28)	144,526	704,659	754,116
30. TOTAL MEDICAL AND HOSPITAL (Lines 24 and 25 less 29)	1,942,018	549,176	84,622,772

Report #2A: TENNCARE OPERATIONS STATEMENT OF REVENUES AND EXPENSES

	Current Year		Previous Year
	Current Period	Year to Date Total	Total
Member Months	394,101	1,576,120	1,411,276
REVENUES:			
1. TennCare Capitation	58,136,501	241,142,939	200,936,995
2. Investment	770,505	3,617,182	4,665,925
3. Other Revenue	0	135	13,508
State Admin Revenue	1,249,104	1,249,104	
IBNR / Capitation Revenue Receivable	(8,529,099)	18,842,234	38,980,147
Premium Tax	39,601	(322,160)	1,367,090
4. TOTAL REVENUES (Lines 1 to 3)	51,666,613	264,529,434	245,963,665
EXPENSES:			
Medical and Hospital Services:			
5. Capitated Physician Services	332,759	1,657,105	3,440,610
6. Fee-For-Service Physician Services	5,039,326	21,152,510	16,266,424
7. Inpatient Hospital Services	29,745,033	126,698,899	84,751,549
8. Outpatient Services	(2,839)	3,336,119	5,212,840
9. Emergency Room Services	2,750,394	11,477,633	8,836,583
10. Mental Health Services	5,330	18,409	47,326
11. Dental Services (Capitated & FFS)	(2,105)	12,498	4,024,536
12. Vision Services (Capitated , FFS & Opthamology)	234,465	823,292	683,053
13. Pharmacy Services (Capitated & FFS)	(4,456,646)	36,872,922	57,530,209
14. Home Health Services	111,648	439,080	329,023
15. Chiropractic Services	0	0	0
16. Radiology Services	49,350	156,046	137,353
17. Laboratory Services	7,255,031	24,737,079	15,578,107
18. Durable Medical Equipment Services	2,118,131	6,911,188	5,401,062
19. Transportation Services (Capitated)	1,366,907	4,500,642	2,848,430
20. Outside Referrals	0	0	0
21. Medical Incentive Pool and Withhold Adjustments	0	0	0
22. Occupancy, Depreciation, and Amortization	0	0	0
23. Other Medical and Hospital Services (Provide Detail)			
Surgery - Orthopedic - FFS Office	0	0	54
MCO Delegated Services	0	0	28,013
Allergy & Immunology FFS Office & Other	1,685,007	6,972,921	6,719,922
Counselors/Therapists	0	0	0
Otolaryngology - FFS Office	454,921	1,206,908	918,771
Anesthesiology - FFS Hosp & Other	946,211	3,255,732	2,655,927
Gastroenterology	5,852	30,454	26,609
Preventive Medicine	821,448	3,149,797	2,753,221
Ped Emergency Medicine - FFS Hospital	0	0	0
Miscellaneous	43,028	284,075	138,184
IBNR	0	0	0
Risk Share	2,166,236	2,589,946	(3,389,592)
24. Subtotal (Lines 5 to 23)	50,669,488	256,283,255	214,938,214
25. Reinsurance Expenses Net of Recoveries	0	0	0
LESS:			
26. Copayments	0	0	0
27. Subrogation	54,839	132,638	0
27a Recoveries	187,866	950,712	808,818
28. Coordination of Benefits	0	0	0
29. Subtotal (Lines 26 to 28)	242,705	1,083,350	808,818
30. TOTAL MEDICAL AND HOSPITAL (Lines 24 and 25 less 29)	50,426,784	255,199,905	214,129,396

Report #2A (Continued): TENNCARE OPERATIONS STATEMENT OF REVENUES AND EXPENSES			
	Current Year		
	Current Period	Year to Date Total	Year to Date Total
Administration:			
31. Compensation (Including Allocated Costs)	2,189,125	9,711,431	8,784,009
32. Marketing (Including Allocated Costs)	2,082	6,931	8,861
33. Premium Tax Expense	1,265,202	5,259,768	4,402,263
34. Occupancy, Depreciation and Amortization (Including Allocated Costs)	234,299	948,249	994,528
35. Other Administration (Provide detail)	0		
	0		
Printing	61,566	271,087	267,302
Rent/Utilities	0	0	0
Franchise, Excise & Property Taxes	0	0	0
Postage	26,534	153,139	160,112
Legal Fees	1,140	6,993	7,650
Liquidated Damages	300,000	1,203,280	804,000
Outside Services	83,371	329,948	4,752
Board & Committee Fees	0	0	0
Auditing, actuarial and other consulting services	0	0	0
Books & Subscriptions	2,002	3,328	3,393
Dues, Fees & Licenses	190	53,148	179,188
Education & Seminars	0	2,134	1,322
Meals & Entertainment	344	1,627	1,360
Office Supplies	459	1,622	3,851
Minor Equipment	0	22	1,733
Travel	339	6,068	3,099
Wellness Program	0	0	0
Leases & Rentals of equipment	0	0	0
Repairs/Maintenance Agreements	0	902	874
Telephone/Beepers/Cellular Phones	46	124	125
Temp/Contract Personnel	15,013	56,759	40,160
Provision for Loss Contracts	0	0	5,547,257
Risk Banding Reserve	(4,053,559)	(4,053,559)	1,789,491
Program Run Out Expense	0	0	0
State Admin	(3,873,945)	(17,059,131)	(7,688,143)
Miscellaneous Expense	530,810	655,976	10,236,342
Total DIRECT Expenses	(3,214,984)	(2,440,154)	25,553,529
Other ALLOCATED Expenses (Provide detail)			
Rent/Utilities	142,204	568,844	497,694
Printing	28,601	141,915	105,252
Postage	102,051	413,518	334,794
Legal Fees	(137,322)	189,293	241,322
Outside Services	(62,445)	954,943	1,263,964
Board & Committee Fees	(53,160)	89,638	139,036
Survey Fees	(49,809)	65,330	80,948
Telephone/Beepers/Cellular Phones	50,544	240,337	205,744
Books & Subscriptions	18,932	82,708	33,097
Minor Equipment	3,641	43,690	44,598
Computer Supplies	(0)	289	2,666
Dues, Fees & Licenses	80,964	356,822	215,385
Education & Seminars	6,731	58,092	54,289
Meals & Entertainment	8,905	28,996	32,430
Office Supplies	35,306	129,773	127,809
Travel	17,076	78,995	102,059
Miscellaneous Expense	183,460	279,964	36,039
Franchise, Excise & Property Taxes & Sales/Use Tax	(52,505)	108,812	130,721
Insurance	102,939	387,966	178,586
Leases & Rentals of equipment	36,489	145,200	145,941
Repairs/Maintenance Agreements	213,444	538,554	545,332
Relocation Expense Total	10,014	13,692	14,090
Training and Orientation Total	0	0	1,018
Temp/Contract Personnel	226,873	873,620	754,332
Covenant Management Fees	367,039	1,468,156	1,346,504
Total ALLOCATED Expenses	1,279,971	7,259,147	6,633,649
36. TOTAL ADMINISTRATION (Lines 31 to 36)	(1,935,013)	4,818,993	32,187,178
FIT & Excise Tax	1,295,965	1,295,965	0
37. Total Other Expenses:	1,295,965	1,295,965	0
38. TOTAL EXPENSES (Lines 30 and 37 and 37A)	49,787,736	261,314,863	246,316,574
39. NET INCOME (LOSS) (Line 4 less Line 38)	1,878,876	3,214,571	(352,909)